

MEMORANDUM



TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

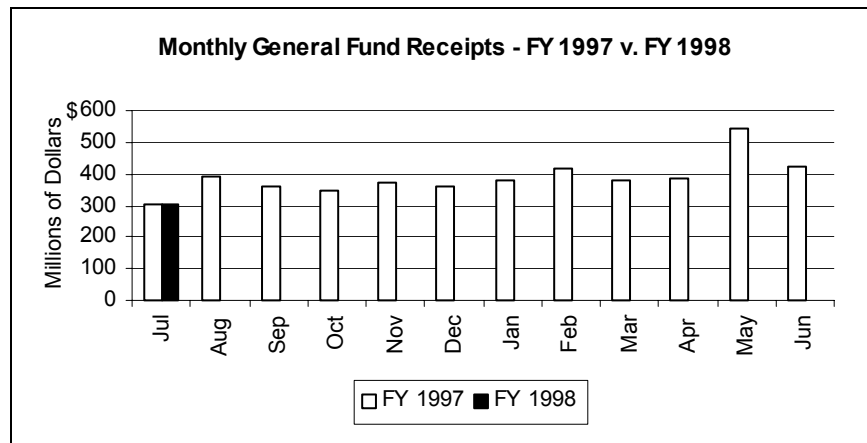
DATE: August 1, 1997

General Fund Receipts Through July 31, 1997

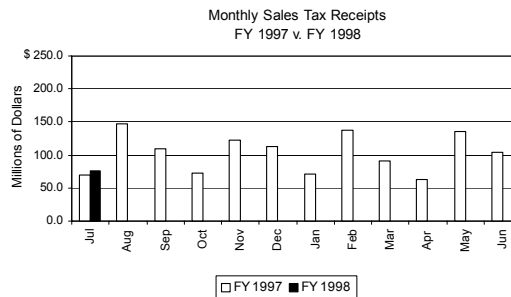
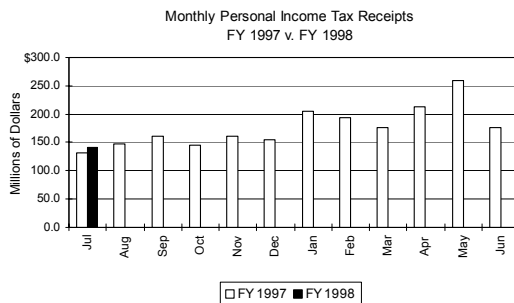
The attached spreadsheet represents total FY 1998 General Fund receipts, with comparable figures for FY 1997. These can be compared to the latest FY 1998 estimate (\$4.714.5 billion) set by the Revenue Estimating Conference (REC) on April 10, 1997. The estimate represents an increase of \$66.7 million (1.4%) compared to FY 1997. The current FY 1998 REC estimate reflects the two major tax reduction bills passed during the 1997 Legislative Session; the 10.0% income tax reduction (HF 388) and the inheritance tax reduction (SF 35).

Twelve bills passed after the April REC meeting and are not reflected in the current FY 1998 REC estimate. The net effect of these bills is a reduction in General Fund revenues of approximately \$49.0 million. The largest component was a \$33.0 million reduction due to a provision in HF 715 (Human Services Appropriations Act) that prevents some institutional reimbursements from being deposited into the General Fund. However, there is a corresponding reduction in appropriations from this provision.

Additionally, current estimates do not reflect the effects of the federal tax bill which is awaiting the President's signature. The tax provisions are reported to have a nationwide impact of \$152.0 billion over five years. The Fiscal Bureau is in the process of estimating the impact of the various provisions in the legislation, which will have ramifications for income tax receipts and inheritance tax receipts.



Total General Fund receipts collected in July were 1.0% greater than July 1997. Tax receipts showed an increase of 2.3%. Personal income tax receipts increased 6.4%. Sales tax receipts were 10.4% higher than the previous fiscal year. Use tax receipts increased 27.1%, and corporate income tax receipts were 47.8% less than July 1996.



Gross personal income tax revenues received in July were \$8.5 million (6.4%) greater than July 1996. The largest contributing factor was withholding receipts, which finished the month \$12.9 million (12.3%) higher than July 1996. It should be noted that it is difficult to draw any substantive conclusions about income tax receipts, or any other receipts, with only one month's data.

Estimate payments, which were due July 1, were approximately \$650,000 (2.6%) less than July 1996.

The REC FY 1998 income tax estimate of \$2.145 billion represents a projected increase of 1.0% compared to FY 1997. As stated earlier, this reflects the 10.0% income tax reduction. The total fiscal impact of the income tax reduction is expected to be \$103.0 million in FY 1998, a portion of which is reflected in estimated accruals. The effects of the law change will not be evident until the second half of the fiscal year.

Sales tax receipts in July exceeded last year's level by \$7.1 million (10.4%). This is the largest monthly growth rate since last July, when receipts exceeded the July 1995 level by 11.1%.

The current REC estimate for FY 1998 sales tax receipts is \$1.320 billion, which represents an increase of 6.7% compared to FY 1997. Two significant pieces of legislation are not reflected in the estimate; HF 126 (Machinery and Equipment Processing Exemption Act) and HF 729 (Local Option Taxes Administration Act). The two acts are expected to result in a decrease in FY 1998 sales tax receipts of approximately \$9.8 million.

Corporate income tax receipts in July were \$12.9 million (47.8%) less than July 1996. Virtually all of the decrease is a result of the day on which the fiscal year ended, which affected the due date for estimate payments.

The April REC projected FY 1998 corporate income tax receipts would total \$295.0 million, a decrease of \$7.5 million (7.5%) compared to FY 1997.

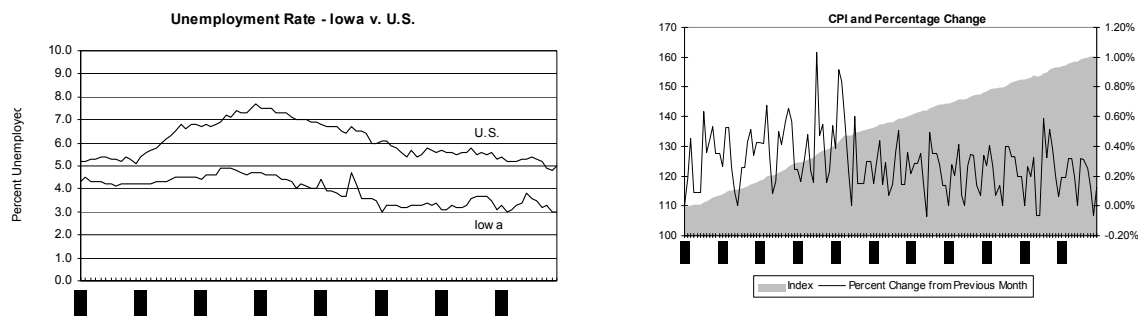
Racing and gaming receipts in July were \$2.2 million (33.3%) less than July 1996. The loss is equally attributable to receipts generated by river boats and slot machines, both of which were substantially less productive than the first month of FY 1996.

All racing and gaming receipts in excess \$60.0 million are deposited in the Rebuild Iowa Infrastructure Account. As a result, activity in these accounts has little direct impact on the General Fund because there is virtually no doubt that receipts will exceed the \$60.0 million threshold. The April REC estimated that \$65.2 million from this source would be deposited to the Infrastructure Account in FY 1998.

Status of the Economy

The seasonally adjusted percent unemployed for the State remained at a record low 3.0% in June. The unemployment rate a year ago was 3.8%. Iowa's total employment registered 1,562,000 down from May's level of 1,565,400, and from the March record high of 1,574,400. The U.S. unemployment rate in June increased two-tenths of a point to 5.0%.

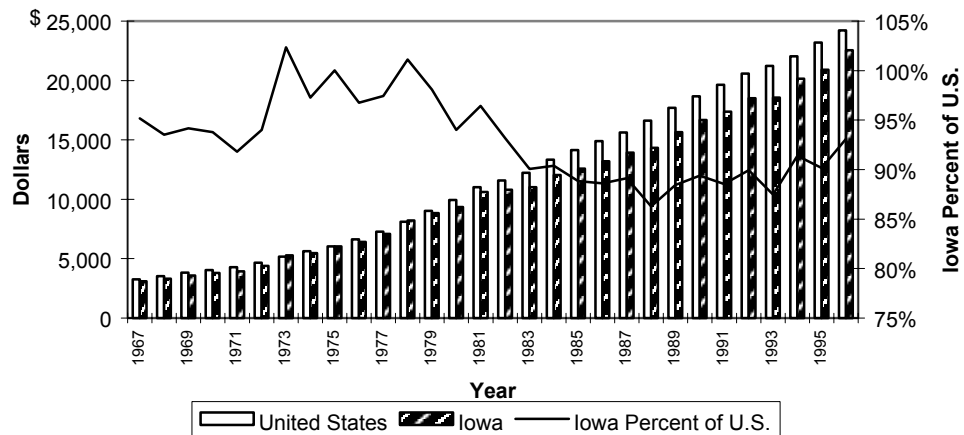
Consumer prices in June increased 0.2%. The Consumer Price Index (CPI-U) through June 1997 was 160.3 (1983=100), which is 2.3% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through March 1997.



The Bureau of Economic Analysis has released a cross-state comparison of 1996 per capital personal income. Per capital income in Iowa in 1996 grew nearly 7.9%, which surpassed national per capita income growth of 4.5%. The growth in Iowa narrowed the gap between income levels in Iowa versus the nation. In 1996, Iowa per capital income was \$22,560, which was 93.1% of the national level of \$24,231. In percentage terms, the gap is the smallest since 1982.

The following chart compares Iowa and national per capita income. The bars show income levels, using the left axis. The line shows Iowa's per capita personal income expressed as a percent of national per capita income, and uses the axis on the right side of the chart.

Per Capita Personal Income - Iowa vs. U.S.



Information related to State General Fund receipts is available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Jon Muller (515-281-4611).

GENERAL FUND RECEIPTS - FY 1998 vs. FY 1997					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1997, through July 31, 1997, in millions of dollars					FY 97 Actual Compared to FY 98 REC Estimate			
	FY 1997	FY 1998	% CHANGE	Year to Date	July	Actual	Estimate	% CHANGE
Personal Income Tax	\$ 132.1	\$ 140.6	6.4%	6.4%	6.4%	\$ 2,123.1	\$ 2,145.0	1.0%
Sales Tax	69.0	76.2	10.4%	10.4%	10.4%	1,237.4	1,320.0	6.7%
Use Tax	19.2	24.4	27.1%	27.1%	27.1%	223.1	240.0	7.6%
Corporate Income Tax	27.0	14.1	-47.8%	-47.8%	-47.8%	318.8	295.0	-7.5%
Inheritance Tax	10.8	9.7	-10.2%	-10.2%	-10.2%	109.3	96.4	-11.8%
Insurance Premium Tax	0.0	0.0	n/m	n/m	n/m	106.0	110.0	3.8%
Cigarette Tax	9.7	9.1	-6.2%	-6.2%	-6.2%	94.6	97.0	2.6%
Tobacco Tax	0.5	0.6	20.0%	20.0%	20.0%	5.7	5.7	-0.2%
Beer Tax	1.1	1.2	9.1%	9.1%	9.1%	12.5	12.5	0.2%
Franchise Tax	4.2	3.3	-21.4%	-21.4%	-21.4%	35.6	31.0	-13.0%
Miscellaneous Tax	0.5	1.3	160.0%	160.0%	160.0%	1.2	0.9	-24.4%
Total Special Taxes	\$ 274.1	\$ 280.5	2.3%	2.3%	2.3%	\$ 4,267.3	\$ 4,353.5	2.0%
Institutional Payments	7.2	4.2	-41.7%	-41.7%	-41.7%	104.3	103.8	-0.4%
Liquor Transfers:								
Profits	1.5	1.5	0.0%	0.0%	0.0%	28.8	30.0	4.2%
7% Gross Revenue	0.8	0.8	0.0%	0.0%	0.0%	9.0	9.0	0.0%
Interest	0.4	1.1	175.0%	175.0%	175.0%	18.0	13.5	-24.8%
Fees	5.2	6.4	23.1%	23.1%	23.1%	63.6	60.1	-5.5%
Judicial Revenue	4.7	5.1	8.5%	8.5%	8.5%	42.9	37.6	-12.4%
Miscellaneous Receipts	2.4	2.0	-16.7%	-16.7%	-16.7%	54.0	47.0	-12.9%
Racing and Gaming Receipts	6.6	4.4	-33.3%	-33.3%	-33.3%	60.0	60.0	0.0%
TOTAL RECEIPTS	\$ 302.9	\$ 306.0	1.0%	1.0%	1.0%	\$ 4,647.8	\$ 4,714.5	1.4%